

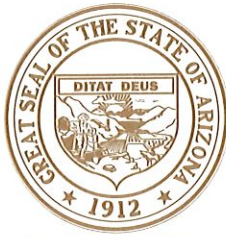
KATIE HOBBS
SECRETARY OF STATE
State of Arizona

The Secretary of State's budget request for FY2021 represents a course correction for an office that has experienced severe mismanagement and irresponsible oversight of public resources for years prior to this administration taking office. From taking advantage of a procurement exemption to committing the department to on-going expenses without corresponding increases in revenues or appropriations, this office went from having the ability to cover expenses as they came up for things like IT improvements and non-election year Elections-related expenses, to operating at a deficit. There are a few main events that have contributed to this financial position, and it has taken my administration nearly nine months to track these financial issues to the root cause.

First, and most significantly, per ARS 41-151 the State Library, Archives and Public Records (LAPR) is required to store the state's public records per their retention schedules, which are also set by LAPR in consultation with governmental units. For sake of example, the largest public records in our care are from the Department of Corrections. Historically, the public records were kept in the Records Management Center at 1919 W. Jefferson St., on the Capitol Grounds. The Secretary of State's Office collects fees from the agencies storing their records with the office, and those fees go into the Records Services Fund (RSF). The RSF has historically been used to pay for the rent on the Records Management Center, eleven permanent staff of the Records Services Department, temporary staff, staff education and training, and operating expenses. In years past, fees paid into this office were sufficient to meet the costs associated with running the program.

In 2017, the previous administration moved the records out of the Records Management Center (RMC) and entered into a 10-year contract with Iron Mountain to be the storage facility for the records. The records management staff was cut down considerably, from eleven to three and not entirely cut, because the SOS still has the responsibility for setting, updating and ensuring compliance with retention schedules. There were many problems with this move. First, the administration then used an exemption from procurement that has been afforded to the State Library System to forgo any kind of procurement process for the selection of Iron Mountain as the vendor. This decision has been called into question for being inappropriate for a contract of this size and scope. Second, the previous administration did not seek review from the Attorney General's Office of the contract, and because the office does NOT have its own General Counsel, there was not an independent legal review of the contract. Third, the previous administration did not take into consideration the expenses associated with the 1919 W. Jefferson building and that it would sit empty as a warehouse. There was a tentative plan to move the Arizona Talking Book Library to that facility, but approval and funding for that was not sought out before the move to Iron Mountain and frankly, would not have been a good business move considering that the State now owns the current Talking Book Library outright. The financial

1700 West Washington Street, Floor 7
Phoenix, Arizona 85007-2808
Telephone (602) 542-4285 Fax (602) 542-1575
www.azsos.gov



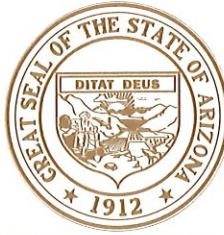
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implications of these decisions are staggering. The Records Services Fund now covers the costs of the Iron Mountain Contract and one permanent employee, and the fees being generated are not enough to cover those costs. The costs associated with the RMC and most of the staff are no longer able to be charged to the RSF and instead are taken from the operating budget of the department. Further, the contract agreed to was a 10-year contract, not typically allowed by the state, with costs increasing on a graduated basis starting in year 4. Effort to reduce the contract to a 5-year term have been met with resistance by the legal department of Iron Mountain, with indications being that doing so would result in increased back charges due to pricing being structured based on a 10-year contract.

In short, this single change in public record storage has resulted in an increase in expense of over half a million dollars without a corresponding increase in base operating to make up for this difference.

In addition to the Iron Mountain impact to the budget, while there has not been any kind of raises for state employees provided for in budget requests from this office, over the previous four years, some staff were being given raises. Of most significant note, without any corresponding layoffs or reduction in force, just prior to leaving office, the previous administration made salary adjustments of over \$81,000, with associated employee related expenses, for staff of the department. New staff of the administration were also provided slight increases over their predecessors' salaries based on information given by the prior administration that the salary line item had enough cash. Since taking office, the SOS has laid off staff in an effort to bring the budget into balance, as well as address major pay disparities across grades and divisions within the department.

In the negotiations and finalization of the FY2020 budget, the SOS office lost the Elections Services line item to make clear the legislature's intent to ensure the money was to be used only for the Presidential Preference Election. The SOS Office reported to the legislature, JLBC and OSPB that without an appropriation to the Elections Services Line Item our office would be unable to cover elections related expenses not associated with staff that occur in off-election years, in the lead up to the 2020 Elections, which will take place in FY2021. After discussions with OSPB and JLBC, it became apparent that in off-election year budgets, previous administrations covered expenses out of the general operating budget. The flexibility to do that no longer exists and without a supplemental appropriation, this office will not be able to meet some of the state's financial obligations related to processing of elections items, such as petition signature verification for petitions, initiatives and referendums (there was an appropriation for processing candidate petition signatures), especially with the new requirements included in SB1451 from the 2019 Legislative session. There are major structural deficiencies that now exist within the department that require correcting.



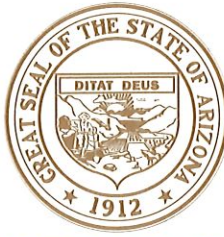
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Another significant commitment made by the prior administration to the counties that has contributed to the current financial bind is to cover 50% of the maintenance and operating costs of the state's Voter Registration System, with half of that being covered from the Help America Vote Act funds, and other half out of the general fund. The office did not have the funds for that in FY2019 so paid the entire amount out of the HAVA funds. The office did not receive an appropriation in FY2020 to cover this expense so will either need a supplemental appropriation or to pass the expense on to the counties. For FY2021, we are requesting the general fund portion of this cost as part of the ongoing operating budget.

The SOS plans to review the arrangement that exists with Iron Mountain and make a determination regarding the future of the RMC. The state cannot continue to pay for a third party to continue to store the records while three warehouses that are intended for that purpose sit empty and cost the Secretary of State hundreds of thousands of dollars in rent. We also need to ensure that the Elections Department has the resources it needs in order to carry out secure, efficient and fair elections. The Elections Department is severely understaffed and needs at least two more positions in order to do the job effectively and appropriately. Further, while my administration has been able to correct the most egregious pay issues within the office, there is still more that needs to be done. This effort started where the biggest issues existed, such as staff being paid under the minimum for their grade level or staff in the same grades being paid drastically different salaries for reasons that don't align with education, experience, and performance levels.

Finally, the SOS IT systems require significant attention in order to ensure security and to meet the state's goal of having all state systems being on the cloud. In 2018, the Secretary of State's Office underwent a thorough cyber security analysis of all of the systems under the department's control. A report was provided that includes many recommendations for improving the security of the department's IT systems. In the FY2020 budget request, a request was made for funding issues related to increasing cyber security as per the report, but there was little documentation provided as to the exact issues to be addressed or costs associated with each. My administration is detailing the requests and has prioritized what the office feels are the most critical issues. Some items included also provide for upgrades to equipment and systems that have long been neglected and put the department at risk for underperformance or failure. Addressing these items should also be a priority for the state.

This FY2021 budget request sets the Secretary of State's office on a corrective course. The issues that my administration has uncovered must be dealt with openly. The damage that has been done can be corrected with fiscal responsibility and an earnest effort to address the needs that have arisen from



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years of mismanagement. The administration looks forward to working with the Governor and Legislature throughout the budget negotiations in the months to come.

Sincerely,

A handwritten signature in blue ink, consisting of stylized initials followed by a long horizontal flourish.

Katie Hobbs

Secretary of State

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Phoenix, Arizona 85007-2808
Telephone (602) 542-4285 Fax (602) 542-1575
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